



To: Members of the Employment Relations, Training, and Safety Committee

From: Wendy Hofmeyer, Director of Health Policy and Human Resources

Date: March 29, 2006

Re: SUTA Dumping

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This memorandum is intended to express the Michigan Chamber of Commerce's concerns with the statements by the Unemployment Insurance Agency as relates to State Unemployment Tax Act Dumping, or "SUTA Dumping," at the March 23, 2006 hearing of this Committee.

Earlier this year, the Michigan Legislature passed, and the Governor signed, legislation to halt SUTA Dumping. The law was passed to put the state in compliance with federal law. When the bill was working its way through the Legislature, the Unemployment Agency lobbied for amendments that would have made Michigan's law far broader than federal law required, imposing complicated and unreasonable burdens, regulations and restrictions on legitimate business ventures and Michigan businesses, including Professional Employer Organizations (PEOs). The Michigan Chamber was opposed to such amendments as the bills made their way through the Legislative process.

Last week, the Committee heard an update on the status of SUTA Dumping from the Unemployment Agency. At the hearing, the Agency stated that SUTA Dumping remains a \$63 million problem in Michigan and that PEOs are largely responsible for SUTA Dumping activities, thereby putting Michigan's Unemployment Trust Fund balance in jeopardy.

While SUTA Dumping may be contributing to the continual decline in the balance of the trust fund, we urge you to keep this issue in perspective. First, it is important to remember that PEOs are legitimate businesses that help employers offer employees healthcare and retirement benefits they would otherwise be unable to provide. Second, it is important to remember that the solvency of Michigan's trust fund is largely in jeopardy because of Michigan's high unemployment rate, not SUTA Dumping. The trust fund will not show a strong positive balance until Michigan's economy improves and workers who are currently unemployed find work.

Finally, we would urge you to question the Unemployment Agency on the U.S. Department of Labor's most recent Benefit Accuracy Measurement (BAM) program results, which showed that for calendar year 2004 (the latest data available) Michigan overpayments exceeded underpayments by 9.53%, costing the state over \$169 million. If the state were to catch at least fifty percent of these mistakes could they have saved the trust fund nearly \$85 million?

If you have any questions, please feel free to contact me at 517/371-7678.